Attachment A. Advantages and Disadvantages of PACE

This attachment contains details about the advantages and disadvantages of PACE financing as summarized in Table 1 - PACE Advantages and Disadvantages.

Advantages for Property Owners

The PACE model has several advantages for property owners over other financing options, as follows:

Longer repayment period. Commercial PACE programs offer a longer term of up to 20 years, in contrast to the much shorter terms for utility and unsecured loans (2 to 5 years), and in some cases, secured loans (10+ years). The longer term can enable commercial property owners to do more comprehensive work and more closely match their payments with the future energy savings. This means certain projects that would not be cash flow positive under types of loans with shorter terms may become cash flow positive under PACE with its longer term.

Repayment transfers with ownership. Many property owners do not want to invest in energy efficiency or renewable energy improvements if they plan to sell their property in a few years. PACE allows the current owner to invest today, knowing that the repayments and the financed improvements can transfer to the new owner if he or she decides to sell the property.

Information from a trusted source. Trust is a key issue in encouraging property owners (and residents) to act. People are bombarded with information from an overwhelming number of sources—some reputable, others not. Local governments are generally seen as an objective source of information because they have no financial stake in the decisions made nor ties to private-sector profits. Local governments simply provide tools and resources to enable residents and businesses to learn about available programs and weigh the options for taking action. For example, local governments can offer a single source of information on how to get started with clean energy upgrades, and many of them provide educational workshops about the various options available to their constituents.

Low interest rates. Low rates may be available to PACE program applicants thanks to the lower interest on municipal bonds and other sources of financing available to local governments in contrast to conventional (private-sector financing) options. (In some cases, however, administrative fees may push the cost of a PACE program above conventional options.) Senior-position financing, which PACE programs typically have, is likely to offer lower interest rates than subordinated financing.

Tax benefits. A portion or all of the property owner's repayments may be tax deductible. Property owners are also eligible for the federal income tax credit (FITC), a 30% investment tax credit for solar installations (although this tax credit is subject to change; program planners are advised to verify it is still in effect at the time of program design).

Disadvantages

The advantages listed in the previous section make PACE an attractive option for property owners, but there are certain limitations local governments should recognize.

Available only to property owners. PACE programs are available only to property owners; renters cannot access this program directly. The main reason is split incentives—the owner is the one that invests in the improvements, but the tenants generally pay the utility bills (and reap the energy/cost savings). (Grantees should note that there is a type of commercial lease, typically referred to as *Triple Net*, wherein property taxes flow through to tenants, in which case the split incentive disappears). In some U.S. cities, a

significant percentage of the residents and commercial businesses are renters. In such cases, local governments will need other targeted energy efficiency policies and incentives for rental properties in addition to the existing low-income weatherization programs.

Cannot finance portable items. PACE programs cannot finance portable items, such as ENERGY STAR qualified light bulbs, refrigerators and appliances, and other products because they can be easily removed when the current owner leaves. Local governments must find other ways to encourage the purchase and use of these valuable upgrades.

Requires dedicated staff time. Administering a PACE program requires time on the part of local government staff. The local governments with existing PACE programs generally have dedicated staff with the time and motivation to run a proper program, as well as support from their local mayors, council members, and other government officials.

High legal and administrative set-up expenses. Now that there are several live programs in California and Colorado, replicating PACE will be easier and likely less costly for grantees just getting started. Local governments may also choose to work together to pool their limited resources and create countywide or regional programs. Still, the concerted effort needed to pass statewide enabling legislation where it is lacking, gain local approval, as well as design and administer a commercial PACE program should not be underestimated.

Not appropriate for investments below $2,500. High origination and administrative costs make PACE programs inappropriate tools for financing investments below a certain cost threshold, typically $2,500.

Some resistance by lenders whose priority in foreclosure may be reduced. If a property should go into foreclosure, typically any assessments that are past due (including incremental PACE assessments, as opposed to the entire PACE-financed amount) would have to be paid off first, thus making existing lenders/mortgage-holders "second in line." Lenders/mortgage-holders may be resistant to having their existing claim on the property (in foreclosure) become subordinate to PACE.

Advantages From the Local Government Point of View

From the point of view of local governments, commercial PACE programs offer the following advantages:

Direct support for constituents' actions – PACE programs are a way for local governments to support climate- and environment-friendly building improvements with very little direct cost to governments beyond the high legal and administrative set-up expenses.

Job creation – This new activity stimulates the local economy and creates jobs as the solar energy and energy efficiency sectors grow.

Positive publicity – The local governments in California and Colorado that have been involved in Energy Financing Districts thus far have received positive attention from the media and local civic groups.

Safe and efficient security mechanism – The PACE financing mechanism is extremely secure due to the senior lien on the property, and delinquent special taxes and assessments are repaid before private liens in the case of foreclosure. Risk to the local government's general fund is minimal.

Attachment B. Key Features to be Added to Existing State Law

As stated in Section 2.3 Determine Authority for PACE, several key features often must be added to existing state law to enable Energy Financing Districts. This attachment contains details on those features.

Authority to Finance Improvements on Private Property – In some states, the statutes authorizing local governments to create assessment districts specify that the improvements to be financed by such assessments must serve a "public purpose" (i.e., must benefit the general public in some way, such as reducing pollution, improving health, etc.) It is, therefore, sometimes necessary to amend the state code to specifically state that renewable energy and energy efficiency improvements on private property are a valid public purpose.

Other states expressly prohibit the use of assessment districts to develop or improve private property. In those states, the code sections authorizing assessment districts must be amended to authorize the financing of renewable energy and energy efficiency improvements on private property.

Authority to Finance Renewable Energy and Energy Efficiency Improvements – State law already authorizing the creation of assessment districts often limits the authority of local governments to financing only certain enumerated types of improvements, such as sidewalks, parks, sewers, and the like. In those states, to enable the authority to create Energy Financing Districts, it is necessary to expand that list to specifically include renewable energy and energy efficiency improvements.

Opt-In Feature – In most states, when the governing body of a municipality creates assessment districts, it must designate their geographic boundaries; and all parcels of property on the tax roll for such designated area are included in the district. In the Energy Financing Districts model, a particular parcel of property is not assessed unless that property owner "opts-in" and applies to participate in the PACE program. To create the legal authority for this "opt-in" mechanism, the code section authorizing assessment districts must usually be amended to provide that, when creating an Energy Financing District, the governing body of the municipality may initially designate a geographic area comprised solely of properties ***proposed*** for annexation into the district. Once the district is created, properties join the Energy Financing District (and thereby become eligible for financing of clean energy improvements and subject to special assessments) only when all of the owners of a particular property voluntarily decide to annex their property into the district.

Attachment C. Lender Information and Acknowledgement Form from Sonoma County Energy Independence Program (SCEIP)

ENERGY INDEPENDENCE
A SONOMA COUNTY PROGRAM

SONOMA COUNTY ENERGY INDEPENDENCE PROGRAM

INFORMATION FOR LENDERS REGARDING ASSESSMENT FINANCING

What kinds of properties/owners are eligible for assessment financing?

Assessment financing is available for residential, commercial, industrial or any other real property that is subject to secured property taxes. Property owners may be individuals, associations, business entities, cooperatives, and virtually any owner which pays real property taxes.

What kinds of improvements are eligible for assessment financing?

Assessment financing is available for energy efficiency, water efficiency and renewable energy improvements that are permanently affixed to the property. In general, eligible improvements include solar panels, high efficiency heating and cooling systems, high efficiency windows and insulation, low flow toilets, on-demand hot water systems, and "smart" irrigation controllers, among others.

Are there limits on the amount of financing available to the property owner through assessment financing?

Improvement costs must be reasonable in relation to property value. As a guideline, proposed Improvements should not exceed 10 percent of assessed value. If more costly Improvements are proposed, the Program Administrator may require additional information supporting the reasonable relationship of the Improvements to the property, and the ability of the property owner to repay the assessment. Projects under $60,000 may be approved by Program Staff. Projects between $60,000 and $500,000 must be approved by the Program Administrator. Financing over $500,000 must be reviewed and approved by the Sonoma County Board of Supervisors at a public meeting.

404 Aviation Boulevard, Santa Rosa CA 95403 • Ph: 707-521-6200 • Fax: 707-524-3769

www.sonomacountyenergy.org

Are there eligibility requirements for property owners to receive assessment financing?

Applicants must be current on property taxes and any mortgages for the property. For commercial properties, the property owner is required to provide written documentation of consent from a first lender, unless the lender has agreed to have property owners participate in the Program without further review by the lender. Property owners may not be in bankruptcy and the property may not be an asset in a bankruptcy proceeding.

How long does the assessment lien remain in place?

The assessment lien remains until the financing is paid off, which is scheduled to be five, ten, or twenty years.

What is the priority of the assessment lien compared to the lien held by my institution?

The contractual assessment lien has the same priority as property taxes and other assessments. See Streets & Highways Code section 5898.30. This means that in the event of a default or foreclosure, the contractual assessment lien would have priority over your liens.

If in the event my institution forecloses on a property, must we pay off the assessment?

In the event of a foreclosure by your institution, as with any outstanding property tax liens, only the amount of the assessment that is due or in default would need to be paid at the time of the foreclosure. The remainder of the assessment remains a lien on the property, assumed by the purchaser.

In the event of a default on payment of the assessment, the County would normally treat the default in the same manner as a default in property taxes. Generally, properties are sold for failure to pay taxes after the taxes remain unpaid for five years. In the event the County proceeded to foreclose on property because of the unpaid assessment lien (i.e., if covenants in bonds sold to finance the Program required foreclosure), you as a lien holder would receive notice, and have an opportunity to cure the non-payment.

Why is assessment financing a benefit to my institution?

There are several benefits to your institution by allowing the Program to finance improvements on properties for which you hold a security interest. First, of course, unlike a home equity line of credit, the funds provided by the County Program can only be spent on renewable energy or energy efficiency improvements that are permanently affixed to the property. These improvements will add market value to the property, or extend the life of the existing property.

Second, generally, the lien periods are shorter than the useful life of the Improvements installed, so your institution will enjoy the extra value as added security interest after the assessment has been paid and the lien removed.

Finally, we all need to participate in the effort to reverse climate change and reduce dependence on fossil fuel. In the current difficult fiscal environment, there are very few avenues open to property owners to finance the types of improvements needed to "green" their property. Supporting a program that facilitates these changes will benefit our whole community. We would be proud to acknowledge your support in this endeavor.

If you have additional questions, please contact Deputy County Counsel Kathy Larocque or Cory O'Donnell at (707) 565-2421.

RETURN TO:
Program Administrator
Sonoma County Energy Independence Program
404 Aviation Boulevard
Santa Rosa, CA 95403

A.P.N.: _____ _____ _____

SCEIP File No: _____

LENDER ACKNOWLEDGEMENT OF OWNER PARTICIPATION IN SONOMA COUNTY ENERGY INDEPENDENCE PROGRAM

THIS ACKNOWLEDGEMENT ("Acknowledgement") is granted this _____ day of _____, 20___, by _____, a _____ ("Lender"), and for the benefit of Property Owner ("Owner"), _____, and the COUNTY OF SONOMA, a subdivision of the State of California ("County"), acting on behalf of the Sonoma County Energy Independence Program.

RECITALS

A. County has established the Sonoma County Energy Independence Program ("Program") to finance installation of distributed generation renewable energy sources or energy efficiency improvements, including water conservation improvements ("Improvements"), as further described in Exhibit A attached hereto, that are permanently fixed to real property.

B. Owner has applied to the Program to finance the amount of $_____, to be paid back with interest as an assessment on Owner's real property, described in Exhibit B attached hereto ("Property"), over a period of _____ years.

C. Owner has previously executed a deed of trust dated _____, to Lender, as trustee and beneficiary thereunder, covering the Property, to secure a promissory note in the sum of $_____, and recorded on _____, _____ as Instrument No. _____ in the Official Records of Sonoma County ("Deed of Trust").

D. Owner has executed, or is about to execute, an Assessment Contract with County ("Assessment Contract") by which County will disburse funds to Owner in a principal amount not to exceed $_____ ("Disbursement") to finance purchase and installation of Improvements, and such Disbursement will be payable with interest, upon terms and conditions described in the Assessment Contract[1].

E. Pursuant to Chapter 29, Part 3, Division 7 of the California Streets and Highways Code, repayment by Owner under the Assessment Contract will be by a statutory assessment levied against the Property (the "Assessment") notice of which shall be recorded against the Property in the Official Records of Sonoma County, and which Assessment, together with interest and any penalties, shall constitute a lien (the "Lien") on the Property, and shall be collected in installments on the property tax bill in the same manner as and subject to the same penalties, remedies and lien priorities as real property taxes.

ACKNOWLEDGEMENT

Lender acknowledges that it has been informed of Owner's participation in the Program, and agrees that Owner's execution of the Assessment Contract will not constitute a default under Lender's Deed of Trust.

LENDER:

Lender Officer to sign:

By: _____
Signature

_____
Name

_____
Title

_____
Date

[1] A form of the Assessment Contract can be viewed on-line at www.sonomacountyenergy.org, or will be provided to Lender upon request.

(ALL SIGNATURES MUST BE ACKNOWLEDGED)

State of California
County of _____

On _____ before me, _____
Date *Name and Title of Officer*

personally appeared _____
Name(s) of Signers

Who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

This area for official notary seal.

_____
Signature of Notary Public

EXHIBIT A
(Include List of Improvements)

EXHIBIT B
PROPERTY DESCRIPTION

REAL PROPERTY IN THE COUNTY OF SONOMA, STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

(per Title Report or other identifying information)

Attachment D. Energy and Cost Savings Analysis Template

This attachment (see next page) contains an example of an energy and cost savings analysis template that PACE programs could require applicants to fill out and submit with their applications. By having a uniform project summary that uses a realistic and consistent set of assumptions, the program administrator will be able to more quickly review the individual measure energy/cost savings and total estimated savings and cost-effectiveness of the project.

Property Location: Office Tower, 123 Main St., Oakland

Sample Energy and Cost Savings Analysis

The Measure Description should match the measure description in the Eligible Measures List as closely as possible.

Entering Data: Applicant/Auditor to manually enter all data in red font

The "Measure Life" can be found in the Eligible Measures List. If the measure is not included in the Eligible Measures List, please contact the Program Administrator.

Measure Number	Measure Code*	Measure Description	Annual Energy and Cost Savings				Payback		Payback with Incentive					Measure Life
			Peak Savings (kW)	Electricity Savings (kWh)	Gas/Fuel Savings (therms)	Total Cost Savings	Measure Cost	Simple Payback (yr)	Potential Utility Incentive	Net Measure Cost	IRR (over Life of Measure)	NPV	Simple Payback (yr)	Measure Life
1	NCM	Check the Programmable Thermostats on the Supplemental Office Heat Pumps	0.0	124,406	0	$ 14,276	$ -	n/a	$ -	$ -	0%	$13,596	0.0	1
2	LCM	Install High-Capacity Air Filters	18.6	25,650	0	$ 2,943	$ 2,045	0.7	$ -	$ 2,045	44%	$758	0.7	1
3	LCM	Condenser Water Temperature Reset	25.8	17,149	0	$ 1,968	$ 3,510	1.8	$ 1,372	$ 2,138	95%	$15,076	1.1	10
4	CIM	Variable Speed Condenser Water Pumping	0.0	315,631	0	$ 36,219	$ 79,044	2.2	$ 25,250	$ 53,793	70%	$263,032	1.5	10
5	CIM	T-12 to T-8 Lighting and Occupancy Controls	74.2	198,502	0	$ 22,778	$ 144,100	6.3	$ 18,858	$ 125,242	15%	$74,012	5.5	10
6	CIM	Install Bi-Level T8 Fluorescent Lighting In Stairwells	2.6	22,267	0	$ 2,555	$ 13,120	5.1	$ 2,000	$ 11,120	22%	$11,232	4.4	10
7	CIM	Reflective Window Film	98.3	543,441	0	$ 62,360	$ 150,667	2.4	$ 58,975	$ 91,693	71%	$453,806	1.5	10
8	CIM	Install Premium Efficiency Inverter Duty Motors on Air Handler Fan and Condenser Water Pump Motors	10.7	105,283	27,273	$ 42,222	$ 18,186	0.4	$ 584	$ 17,602	243%	$351,741	0.4	10
		SUB-TOTALS	**230.2**	**1,352,330**	**27,273**	**$ 185,321**	**$ 410,673**	**2.2**	**$ 107,039**	**$ 303,634**	**60%**	**$1,183,253**	**1.6**	10
Demand Response														
1	DR	Reduce Lighting	170.1	6,805	0	$ 3,163	$ 11,360	3.6	$ -	$ 11,360	28%	$16,307	3.6	10
2	DR	Reduce Ventilation	50.9	4,178	0	$ 1,942	$ 1,000	0.5	$ -	$ 1,000	197%	$15,984	0.5	10
		SUB-TOTALS	**221.0**	**10,983**	**0**	**$ 5,104**	**$ 12,360**	**2.4**	**$ -**	**$ 12,360**	**43%**	**$32,291**	**2.4**	10
Self Generation / Renewables														
1	SGM	Solar PV System at Parking Structure	195.1	318,686	0	$61,000	$1,667,000	27.3	$950,000	$ 717,000	9%	$919,757	11.8	40
		SUBTOTALS	**195.1**	**318,686**	**0**	**$ 61,000**	**$ 1,667,000**	**27.3**	**$ 950,000**	**$ 717,000**	**0%**	**$919,757**	**11.8**	40
TOTALS (Recommended Measures)			**646.4**	**1,681,998.7**	**27,273.0**	**251,425.2**	**2,090,032.6**	**8.3**	**1,057,038.9**	**1,032,993.7**	**23%**	**2,135,300.6**	**4.1**	40

* "NCM" stands for No-Cost Measures
"LCM" stands for Low-Cost Measures
"CIM" stands for Capital-Intensive Measures
"DR" stands for Demand Response
"SGM" stands for Self Generation / Renewables

Enter Actual Annual Energy Usage:	
Past 12-months of Actual Annual Electricity (kWh) Usage:	9,611,421.1
Past-12 Months Actual Annual Fuel (therms) Usage:	303,033.3
Total Past 12-Months Annual Energy (kBTu) Usage:	63,097,502.2
Savings Percentages:	
Percentage of Annual Estimated Electricity Savings:	17.5%
Percentage of Annual Estimated Fuel Savings:	9.0%
Percentage of Total Annual Estimated Energy Savings:	13.4%

Please enter last 12-months of electricity and fuel usage for the property here.

Average electricity/fuel costs will be sufficient for most proposals. If you have a measure that requires an actual fuel cost, please propose it and contact the Administrator.

Actual Electricity / Fuel Costs, per Property's Rate Schedule		
Average Electricity Cost	$ 0.1148	/kWh
Average Gas/Fuel Cost	$ 1.11	/therm
NPV Discount Rate	5.00%	
Electricity / Fuel Annual Inflation Rate	3.00%	

Provide Description of Rate Schedule:
Average for E20S Rate Schedule
Average for GNR1 Rate Schedule

Please enter the property's rate schedule here, which correlates to the electricity/fuel costs entered in the adjacent table.

For the purposes of evaluation and comparison, the Commercial PACE Program requires the use of a 3% escalation rate for electricity and fuel costs and a 5% discount rate for NPV calcs in all PACE Energy Audits.

2010 Utility Incentives	
Incentives	**Rate**
Motors / Equipment / Controls	$0.08 /kWh
Lighting	$0.05 /kWh
AC & Refrigeration	$0.14 /kWh
Gas	$0.80 /therm
Rebates	
Occupancy Sensors - Wall (L83)	$16.50 /sq.ft.
Occupancy Sensors - Ceiling (L83)	$44.00 each
T12 to T8 Retrofit - 4 ft (L290)	$4.25 per lamp
Bi-Level Stairwell Fixtures (L733)	$25.00 per fixture
VFD for HVAC Fans (H148)	$80.00 per hp
Demand Response	
Assumed equivalent DR incentive	$0.35 per kWh

This table provides sample data only. Each auditor must fill out the utility incentive/rebate information in this table that is relevant to the Proposed Project.

Attachment E. Finding a Qualified Energy Auditor

The commercial building energy audit market is fragmented, with no universally accepted standards for auditors. Therefore, a commercial PACE program cannot point to a single accreditation that auditors be required to have.

In the absence of a single accreditation, PACE programs can best serve their participants by providing them with a list of recommended licenses/credentials to seek in a contractor's team, and questions to ask about their experience and what they will deliver to the client.

Recommendations for finding a qualified commercial energy auditor include the following:

- Look for staffing to include—
    - Individuals with a Professional Engineering License (P.E.)
    - Individuals who are a Certified Energy Manager (CEM) or a Certified Energy Auditor (CEA) from the Association of Energy Engineers (AEE)
    - A collection of individuals who, between them, have multidisciplinary competence (e.g., lighting, HVAC, refrigeration, appliances).
- Ask about involvement in relevant professional organizations (e.g., the Association of Energy Engineers (AEE), the American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE), the Illuminating Engineering Society (IES), the U.S. Green Building Council (USGBC), etc.) or with federal efficiency programs such as ENERGY STAR.
- Ask for previous client references and follow up to confirm the quality of work and service
- Ask for a sample audit report (redacted) and confirm it is thorough, professional, and clear
- Be clear about what outcomes are expected, including:
    - Actionable recommendations
    - Transparent analysis
    - Credible energy and cost savings estimates
    - Reasonable cost estimates or vendor bids
    - Interactive effects of multiple measures
    - Measurements of existing systems
    - Utility incentive/rebate application assistance.

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